2Q20 Economic Summary

For the US, the second quarter of 2020 was marred by ongoing uncertainty surrounding the coronavirus, political divisiveness, and widespread social unrest related to the death of George Floyd. Despite the turmoil, US stock markets rebounded during the quarter as investor sentiment was buoyed by government stimulus and the Fed's commitment to extremely accommodative monetary policy. Although Treasury supply rose to fund the government's $2 trillion stimulus package, Treasury yields remained near record lows during the quarter as the elevated supply was easily absorbed by the Fed's asset purchase program and by risk-averse investors still wary about the nation's ability to quickly recover from the devastating effects of the pandemic.

Countries across the globe continue the fight to contain the coronavirus outbreak. Some countries are faring better than others, but all continue to suffer from the economic damage inflicted by the COVID-19 pandemic. The IMF recently lowered its global growth forecast to reflect the fact that data since April have pointed to a sharper downturn than previously envisaged. In its report, the institution deemed the pandemic "a crisis like no other" and forecasted a contraction in global growth of 4.9% for 2020. The IMF now expects a larger hit to consumer spending as lockdowns and social distancing curb consumer demand. In addition, there is likely to be deeper economic "scarring" resulting from more firms going out of business and people being unemployed for longer. This will make it harder for global economic activity to bounce back as quickly as hoped.

Like the rest of the world, the coronavirus crippled the US economy. The second quarter of 2020 marked the worst economic quarter in US history, with much of the damage occurring in April. Both manufacturing and service sectors fell well into contraction territory as businesses shut down and consumers sheltered in place. The US lost a record-setting 20.5 million jobs during the month, and the unemployment rate more than tripled to 14.7%, the highest since the Great Depression. April's losses erased roughly all the jobs added in the past decade. Fortunately, things started to brighten a bit in May and June as some states began to gradually reopen. Retail sales jumped more than 18% in May as Americans weary of being stuck at home returned to shopping in stores and eating in restaurants. The trend continued in June as more businesses reopened. Labor markets also rebounded from the April lows. The US added a combined 7.5 million jobs in the last two months of the quarter and the unemployment rate fell to 11.1% by the end of June. While the labor data is encouraging, the US still has a long way to go to make up the jobs lost in March and April. Housing market data also rebounded toward the end of the quarter as people began taking advantage of record-low mortgage rates. The pandemic also appears to have spurred a shift away from urban living in condos and apartments to single-family homes in the suburbs. Despite these green shoots, economists expect US GDP contracted a staggering 35% during the second quarter. While most expect a strong rebound in the third quarter, risks to the recovery remain as the recent resurgence in virus cases has led states to pause and in some cases reverse reopening plans, which could dampen demand and spur another wave of layoffs.

Concerns about a second wave of contagion are reflected in the Fed's economic forecasts. If states continue to reopen and can relax social distancing in a steady way, the Fed expects the economy will recover in a few years. However, if there are waves of COVID, requiring new lockdowns, the Fed expects considerably more job losses, business failures and economic weakness stretching for years longer. Under either scenario, the Fed expects more monetary and fiscal stimulus will be needed to support growth. At the June FOMC meeting, the Fed made it clear that it expects to keep monetary policy extremely accommodative for a prolonged period of time. The dot plot forecast showed the fed funds rate is expected to remain at the effective lower bound (0-0.25%) until at least the end of 2022. The Fed also pledged to continue its bond buying program at the current pace to sustain "smooth market functioning." At the post meeting press conference, Chair Powell acknowledged that while recent labor market news was encouraging, the Fed believes it will take years to get the unemployment rate back to pre-COVID levels. As such, when asked for guideposts for when the Fed may begin to tighten, Chair Powell responded, "We're not even thinking about thinking about raising rates."

In addition to keeping rates at the effective lower bound for an extended period, the Fed added to the emergency measures taken in March. During the second quarter, the Fed expanded its net asset purchase program, eased overnight repo rates, and offered favorable business lending. With its foot firmly on the monetary gas pedal, the Fed continues to pound the drumbeat for Congress to do the same on the fiscal side. In his recent testimony to the US House of Representatives Financial Services Committee, Chair Powell stated that "It would be a concern if Congress were to pull back on the support its providing too quickly." More action is needed to prevent lasting damage to the economy. As the cut-off dates for virus-related fiscal support approach, the focus will be on how much and to what extent lawmakers are willing to extend lifelines to struggling businesses and the unemployed. The economic recovery is expected to be slow and uneven until real progress is made on containing the virus or a vaccine is developed. As such, delayed or inadequate fiscal measures could hinder the recovery further.

Any opinions herein, including forecasts, reflect our judgment as of this date and are subject to change.

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